

# SENATE BILL REPORT

## SB 5907

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As of March 1, 1995

**Title:** An act relating to a use tax exemption for custom designed and constructed equipment used in manufacturing.

**Brief Description:** Providing a use tax for certain customized equipment.

**Sponsors:** Senators Rasmussen, West, Sheldon, Finkbeiner, Loveland and Long.

**Brief History:**

**Committee Activity:** Ways & Means: 2/28/95.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Terry Wilson (786-7715)

**Background:** The sales tax is imposed on each retail sale of most articles of tangible personal property and certain services. Taxable services include construction, repair, telephone, lodging of less than 30 days, physical fitness, and some recreation and amusement services. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms but also applies to items constructed by a business for its own use.

Exempt from tax are purchases for resale and purchases of components and ingredients that become part of another product for sale.

**Summary of Bill:** Specialized equipment used in manufacturing is exempt from use tax if:

- (1) The equipment is of original design and is not otherwise available;
- (2) Sales tax is paid on all of the materials and components used in its construction;
- (3) The equipment is primarily designed and assembled by the same firm that uses the equipment for manufacturing other items; and
- (4) The value of the equipment does not exceed \$50,000.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective date:** The bill contains an emergency clause and takes effect July 1, 1995.

**Testimony For:** Use tax was discovered through audit. There is no incentive to be innovative because you are penalized. This puts good common sense in government.

**Testimony Against:** None.

**Testified:** Senator Rasmussen, prime sponsor (pro); Paul Warmoth, Warmoth Guitar Products (pro); Tony Meinhardt, IBA (pro).